

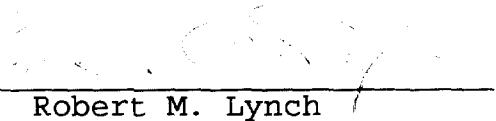
IX. CONCLUSION

For the foregoing reasons, SWBT respectfully requests that the Commission affirm that SWBT's request for exogenous treatment has been reasonably calculated and should be granted.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By


Robert M. Lynch
Durward D. Dupre
Thomas A. Pajda

Attorneys for
Southwestern Bell Telephone Company

One Bell Center, Suite 3520
St. Louis, Missouri 63101
(314) 235-2507

August 14, 1995

**Pay-As-You-Go Amounts
and Calculation of Interstate
Amount for 1990/91 Tariff Year**

**PAY-AS-YOU-GO AMOUNTS AND CALCULATION OF
INTERSTATE AMOUNT FOR 1990/91 TARIFF YEAR**

1	1990 ANNUAL FILING--ACCT 6728 PAY-AS-YOU-GO PORTION	90,050,000
2	ADJUSTMENTS - (A) NON-REG	2,597,042
	(B) -OTHER	3,424,962
3	SUBJECT TO SEPARATIONS PAY-AS-YOU-GO AMOUNT	84,027,996
4	INTERSTATE PAY-AS-YOU-GO AMOUNT	19,684,987
5	ADJUSTED INTERSTATE PAY-AS-YOU-GO AMOUNT	19,635,420
6	INTERSTATE PAY-AS-YOU-GO LESS B&C AMOUNT	18,578,465

SOURCE

- 1 SECTION 2A
- 2 LINE 1 * ATTACHMENT 1, PAGE 2, LINE 3 AND LINE 4
- 3 LINE 3 MINUS LINE 2 A & B
- 4 LINE 3 * ATTACHMENT 1, PAGE 2, LINE 6
- 5 LINE 4 * ATTACHMENT 1, PAGE 2, LINE 10
- 6 LINE 5 - LINE 5 * ATTACHMENT 1, PAGE 2, LINE 7

**PAY-AS-YOU-GO AMOUNTS AND CALCULATION OF
INTERSTATE AMOUNT FOR 1990/91 TARIFF YEAR**

FACTORS USED TO REMOVE NON-REG AND OTHER FROM PAY-AS-YOU-GO EXPENSES

ACCOUNT 6728

	CORP OPER-OTHER GENERAL & ADMIN	EXPENSE	PERCENT
1	TOTAL EXPENSE	102,357	N/A
2	NON-REGULATED	2,952	0.028840
3	OTHER -(SNFA & ALL OTHER)	3,893	0.038034
4	SUBJECT TO SEPARATIONS	95,512	0.933126
	SOURCE-1990 ANUAL TARIFF FILING	EXPENSE	PERCENT
1	TOTAL EXPENSE	COL B	N/A
2	NON-REGULATED	COL J	LN 2 / LN 1
3	OTHER-(SNFA & ALL OTHER)	COL K + COL L	LN 3 / LN1
4	SUBJECT TO SEPARATIONS	LN 1-(LN3 +4)	LN 4 / LN 1

**FACTORS USED TO DISTRIBUTE PAY-AS-YOU-GO EXPENSE
TO INTERSTATE AND BETWEEN BASKETS**

ACCOUNT 6720

	CORPORATE OPERATIONS EXPENSE	EXPENSE	PERCENT
5	SUBJECT TO SEPARATIONS	677,940	N/A
6	INTERSTATE	158,819	0.234267
7	BILLING AND COLLECTION	8,549	0.053829
	SOURCE-1990 ANNUAL TARIFF FILING	EXPENSE	PERCENT
5	SUBJECT TO SEPARATIONS	COL B	N/A
6	INTERSTATE	COL D	LN 6 / LN 5
7	BILLING AND COLLECTION	COL O	LN 7 / LN 6

1990 ANNUAL TARIFF FILING--FCC DISALLOWANCES

	EXPENSES LESS DEPRECIATION (ELD)	
8	TRP FORECAST	3,364,184
9	INTERSTATE ELD DISALLOWANCE	8,472
10	PERCENT DISALLOWANCE ADJUSTMENT	0.002518
	SOURCES	
8	1990 ANNUAL TARIFF FILING, COS-2, LN 300, COL R	
9	FCC MO&O, WORKPAPER C-2, ISSUED IN DOCKET 90-320 RELEASED JUNE 21, 1990 (90-845)	
10	LN 9 / LN 8	

**Back-Up for Justification
of Pay-As-You-Go Amounts
in 1990/91 Tariff Year**

COS-6(P)
ARMIS COS-6(P) REPORT

Approved by OMB
3060-0395
Expires 10/31/90

COMPANY: SOUTHWESTERN BELL TEL. CO.
STUDY AREA: SOUTHWESTERN BELL TEL. CO.
PERIOD: JUL 1990 TO JUN 1991
COSA: SWTR

UNRESTRICTED VERSION
SUBMISSION 3
TABLE I
PAGE 5.1 OF 10.4

TABLE I - REGULATED/NONREGULATED DATA
(Dollars in thousands)

Row/ Acct. Number	Account Title	Total	Directly Assigned	
			Regulated	Nonreg.
	(a)	(b)	(c)	(d)
Customer Ops-Mkting				
6611	Product management	48,718	9,083	6,083
6612	Sales	99,899	45,057	3,049
6613	Product advertising	33,778	5,926	4,635
6610	Marketing expense	182,395	60,066	13,766
Customer Ops-Service				
6621	Call completion	214,070	214,070	0
6622	Number services	54,636	54,636	0
6623	Customer services	455,923	102,845	121
6620	Services expense	724,629	371,551	121
Corporate Operation				
6711	Executive	61,131	6,481	194
6712	Planning	14,955	0	554
6710	Executive & planning	76,086	6,481	748
6721	Accounting & finance	100,363	11,385	133
6722	External relations	114,053	60,689	37
6723	Human resources	105,545	0	6
6724	Information Managment	128,801	0	1,278
6725	Legal	16,084	1	67
6726	Procurement	22,719	0	131
6727	Research & developmen	56,669	0	200
6728	Other general & adm	102,357	4,912	2
6720	General & administrat	646,591	76,987	1,855
6790	Prov uncollect note	0	0	0

COS-6(P)
ARMIS COS-6(P) REPORT

Approved by OMB
3060-0395
Expires 10/31/90

COMPANY: SOUTHWESTERN BELL TEL. CO.
STUDY AREA: SOUTHWESTERN BELL TEL. CO.
PERIOD: JUL 1990 TO JUN 1991
COSA: SWTR

UNRESTRICTED VERSION
SUBMISSION 3
TABLE I
PAGE 5.2 OF 10.4

TABLE I - REGULATED/NONREGULATED DATA
(Dollars in thousands)

Row/ Acct. Number	Account Title	Attributed		Generally Allocated	
		Regulated	Nonreg.	Regulated	Nonreg.
	(a)	(e)	(f)	(g)	(h)
Customer Ops-Mkting					
6611	Product management	20,260	13,292	0	0
6612	Sales	48,390	3,403	0	0
6613	Product advertising	18,579	4,638	0	0
6610	Marketing expense	87,229	21,334	0	0
Customer Ops-Service					
6621	Call completion	0	0	0	0
6622	Number services	0	0	0	0
6623	Customer services	334,908	18,049	0	0
6620	Services expense	334,908	18,049	0	0
Corporate Operation					
6711	Executive	52,524	1,932	0	0
6712	Planning	(94)	0	14,131	364
6710	Executive & planning	52,430	1,932	14,131	364
6721	Accounting & finance	(23)	0	86,665	2,203
6722	External relations	12,223	2,945	37,143	1,016
6723	Human resources	100,832	4,707	0	0
6724	Information Managment	124,047	3,476	0	0
6725	Legal	(3)	0	15,517	503
6726	Procurement	18,409	792	3,303	84
6727	Research & developmen	0	0	54,830	1,639
6728	Other general & adm	25,035	1,172	69,458	1,778
6720	General & administrat	280,520	13,092	266,916	7,223
6790	Prov uncollect note	0	0	0	0

COS-6(P)
ARMIS COS-6(P) REPORT

Approved by OMB
3060-0395
Expires 10/31/90

COMPANY: SOUTHWESTERN BELL TEL. CO.
STUDY AREA: SOUTHWESTERN BELL TEL. CO.
PERIOD: JUL 1990 TO JUN 1991
COSA: SWTR

UNRESTRICTED VERSION
SUBMISSION 3
TABLE I
PAGE 5.3 OF 10.4

TABLE I - REGULATED/NONREGULATED DATA
(Dollars in thousands)

Row/ Acct. Number	Account Title	Total Regulated	Total Nonreg.
-----	-----	-----	-----
	(a)	(i)	(j)
	Customer Ops-Mkting		
6611	Product management	29,343	19,375
6612	Sales	93,447	6,452
6613	Product advertising	24,505	9,273
6610	Marketing expense	147,295	35,100
	Customer Ops-Service		
6621	Call completion	214,070	0
6622	Number services	54,636	0
6623	Customer services	437,753	18,170
6620	Services expense	706,459	18,170
	Corporate Operation		
6711	Executive	59,005	2,126
6712	Planning	14,037	918
6710	Executive & planning	73,042	3,044
6721	Accounting & finance	98,027	2,336
6722	External relations	110,055	3,998
6723	Human resources	100,832	4,713
6724	Information Managment	124,047	4,754
6725	Legal	15,514	570
6726	Procurement	21,712	1,007
6727	Research & developmen	54,830	1,839
6728	Other general & adm	99,405	2,952
6720	General & administrat	624,422	22,169
6790	Prov uncollect note	0	0

COS-6(P)
ARMIS COS-6(P) REPORT

Approved by OMB
3060-0395
Expires 10/31/90

COMPANY: SOUTHWESTERN BELL TEL. CO.
STUDY AREA: SOUTHWESTERN BELL TEL. CO.
PERIOD: JUL 1990 TO JUN 1991
COSA: SWTR

UNRESTRICTED VERSION
SUBMISSION 3
TABLE I
PAGE 5.4 OF 10.4

TABLE I - REGULATED/NONREGULATED DATA
(Dollars in thousands)

Row/ Acct. Number	Account Title	SNFA and Intra-co. Adjustments	Other Adjustments	Subject to Separations
	(a)	(k)	(l)	(m)
	Customer Ops-Mkting			
6611	Product management	6	N/A	N/A
6612	Sales	6	N/A	N/A
6613	Product advertising	0	N/A	N/A
6610	Marketing expense	12	0	147,282
	Customer Ops-Service			
6621	Call completion	68	N/A	N/A
6622	Number services	0	N/A	N/A
6623	Customer services	39	N/A	N/A
6620	Services expense	107	0	706,352
	Corporate Operation			
6711	Executive	12	N/A	N/A
6712	Planning	1	N/A	N/A
6710	Executive & planning	13	0	73,030
6721	Accounting & finance	452	N/A	N/A
6722	External relations	19	N/A	N/A
6723	Human resources	843	N/A	N/A
6724	Information Managment	1,914	N/A	N/A
6725	Legal	329	N/A	N/A
6726	Procurement	102	N/A	N/A
6727	Research & developmen	3	N/A	N/A
6728	Other general & adm	3,893	N/A	N/A
6720	General & administrat	7,555	0	616,864
6790	Prov uncollect note	0	0	0

COS-7(P)

ARMIS COS-7(P) REPORT

3060-0395

Expires 10/31/90

UNRESTRICTED VERSION

SUBMISSION 3

TABLE I

PAGE 29.1 OF 30.3

COMPANY: SOUTHWESTERN BELL TEL. CO.
 STUDY AREA: SOUTHWESTERN BELL TEL. CO.
 PERIOD: From JUL 1990 To JUN 1991
 COSA: SWTR

TABLE I - SEPARATIONS AND ACCESS TABLE
 (Dollars in Thousands)

Row	Category (a)	Subject to Separations (b)	State (c)	Interstate (d)	Pay (e)	Common Line Inside Wire (f)	BFP (g)	CPE (h)
(3) Category 3 - All Other Customer Services Expenses								
7300	Oth Cust Svc 36/69	30,048	24,292	5,756	79	33	909	N/A
7301	#Tot Cat 1 & 2 36	407,597	329,358	78,239	N/A	N/A	N/A	N/A
7302	#Combined Exp 69	N/A	N/A	116,473	1,651	638	18,287	N/A
7310	Tot Oth C Svc 36/69	437,622	353,626	83,996	1,730	671	19,195	N/A
7320	Tot Cust Op 36/69	853,610	694,696	158,914	2,206	1,754	34,964	N/A
D. Corporate Operations Expenses								
7330	EAS Settlements 36	1,535	1,535	N/A	N/A	N/A	N/A	N/A
7331	All Other 36/69	677,940	519,121	158,819	2,723	7,446	59,064	N/A
7332	#Big 3 Exp 36	2,292,363	1,757,921	534,442	N/A	N/A	N/A	N/A
7333	#Big 3 Exp 69	N/A	N/A	612,191	10,443	29,199	227,880	N/A
7334	Tot Corp Oper 36/69	679,475	520,656	158,819	2,723	7,446	59,064	N/A
E. FCC Expense Adjustment								
7350	FCC Expense Adj 36	N/A	N/A	1,215	17	40	543	N/A
7351	Tot Oper Exp 36/69	5,140,945	3,919,844	1,222,315	20,318	60,810	457,734	N/A
F. Operating Taxes								
1. State and Local Taxes								
8000	St & Lcl Inc 36/69	N/A	N/A	8,701	N/A	N/A	N/A	N/A
8001	#Appr Tax Inc 36/69	N/A	N/A	0	N/A	N/A	N/A	N/A
8002	Direct Oth St&Lcl36	N/A	N/A	0	N/A	N/A	N/A	N/A
8003	All Oth St & Lcl 36	N/A	N/A	72,884	N/A	N/A	N/A	N/A
8004	#TPIS 36	N/A	N/A	6,012,138	N/A	N/A	N/A	N/A
8005	Tot Oth St & Lcl 69	N/A	N/A	72,884	N/A	N/A	N/A	N/A
8006	#Combined Inv 69	N/A	N/A	5,986,686	N/A	N/A	N/A	N/A
8007	Tot St&Lcl Tax36/69	N/A	N/A	81,585	N/A	N/A	N/A	N/A

REVISED 5/17/90

COS-7(P)
ARMIS COS-7(P) REPORT

COMPANY: SOUTHWESTERN BELL TEL. CO.
STUDY AREA: SOUTHWESTERN BELL TEL. CO.
PERIOD: From JUL 1990 To JUN 1991
COSA: SWTR

3060-0395
Expires 10/31/90
UNRESTRICTED VERSION
SUBMISSION 3
TABLE I
PAGE 29.2 OF 30.3

TABLE I - SEPARATIONS AND ACCESS TABLE
(Dollars in Thousands)

Row	Category (a)	Total Common Line (i)	Switching (j)	EqualAccess (k)	Traffic Sensitive Transport (l)	Information (m)	Total Traffic Sen (n)	Special Access (o)
(3) Category 3 - All Other Customer Services Expenses								
7300	Oth Cust Svc 36/69	1,021	197	N/A	276	1,223	1,696	760
7301	#Tot Cat 1 & 2 36	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7302	#Combined Exp 69	20,576	3,963	N/A	5,676	25,457	35,096	15,004
7310	Tot Oth C Svc 36/69	21,596	3,967	N/A	5,952	1,235	11,154	15,763
7320	Tot Cust Op 36/69	38,924	9,464	N/A	14,068	26,749	50,281	21,552
D. Corporate Operations Expenses								
7330	EAS Settlements 36	0	0	N/A	0	0	0	0
7331	All Other 36/69	69,233	17,187	N/A	28,568	7,339	53,094	23,710
7332	#Big 3 Exp 36	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7333	#Big 3 Exp 69	267,522	66,451	N/A	109,215	27,570	203,237	92,362
7334	Tot Corp Oper 36/69	69,233	17,187	N/A	28,568	7,339	53,094	23,710
E. FCC Expense Adjustment								
7350	FCC Expense Adj 36	600	160	N/A	252	2	413	201
7351	Tot Oper Exp 36/69	538,862	148,401	13,469	237,748	35,861	435,478	185,041
F. Operating Taxes								
1. State and Local Taxes								
8000	St & Lcl Inc 36/69	3,882	1,137	235	2,289	11	3,671	1,139
8001	#Appr Tax Inc 36/69	0	0	0	0	0	0	0
8002	Direct Oth St&Lcl36	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8003	All Oth St & Lcl 36	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8004	#TPIS 36	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8005	Tot Oth St & Lcl 69	35,085	9,670	0	16,251	139	26,061	11,583
8006	#Combined Inv 69	2,893,320	793,567	0	1,303,835	11,784	2,109,185	970,758
8007	Tot St&Lcl Tax36/69	38,967	10,807	235	18,540	150	29,732	12,722

COS-7(P)
ARMIS COS-7(P) REPORT

COMPANY: SOUTHWESTERN BELL TEL. CO.
STUDY AREA: SOUTHWESTERN BELL TEL. CO.
PERIOD: From JUL 1990 To JUN 1991
COSA: SWTR

3060-0395
Expires 10/31/90
UNRESTRICTED VERSION
SUBMISSION 3
TABLE I
PAGE 29.3 OF 30.3

TABLE I - SEPARATIONS AND ACCESS TABLE
(Dollars in Thousands)

Row	Category (a)	Total Access (p)	Billing & Collection (q)	IX (r)

(3) Category 3 - All Other Customer Services Expenses				
7300	Oth Cust Svc 36/69	3,477	1,549	730
7301	#Tot Cat 1 & 2 36	N/A	N/A	N/A
7302	#Combined Exp 69	70,676	31,251	14,544
7310	Tot Oth C Svc 36/69	48,513	32,800	2,677
7320	Tot Cust Op 36/69	110,757	32,800	15,351
D. Corporate Operations Expenses				
7330	EAS Settlements 36	N/A	N/A	N/A
7331	All Other 36/69	146,037	8,549	4,232
7332	#Big 3 Exp 36	N/A	N/A	0
7333	#Big 3 Exp 69	563,121	32,802	16,268
7334	Tot Corp Oper 36/69	146,037	8,549	4,232
E. FCC Expense Adjustment				
7350	FCC Expense Adj 36	1,214	0	2
7351	Tot Oper Exp 36/69	1,159,381	41,349	21,586
F. Operating Taxes				
1. State and Local Taxes				
8000	St & Lcl Inc 36/69	8,691	N/A	N/A
8001	#Appr Tax Inc 36/69	0	N/A	N/A
8002	Direct Oth St&Lcl36	N/A	N/A	N/A
8003	All Oth St & Lcl 36	N/A	N/A	N/A
8004	#TPIS 36	N/A	N/A	N/A
8005	Tot Oth St & Lcl 69	72,729	0	154
8006	#Combined Inv 69	5,973,263	0	13,426
8007	Tot St&Lcl Tax36/69	81,420	N/A	N/A

Effect of Price Cap Formula on Interstate Pay-As-You-Go Amount

**OPEB Designation Order, Paragraph 17, Issue A, Item 3
(Effect of Price Cap Formula on PAYGO Costs From 1/1/91 to 1/1/93.)**

1/1/93 PAYGO Cost = Initial IS PAYGO Cost x Price Cap Change x Price Cap Factor.
(See 1993 Annual Filing Transmittal 2271, D&J, Figure 2H-7 For Factor Development)

Including SLC \$17,139,155 [$\$18,578,465 \times (1 - .0739) \times .996143$]

Excluding SLC \$16,748,661 [$\$18,578,465 \times (1 - .0950) \times .996143$]

<u>DATE</u>	<u>INCLUDING SLC</u>		<u>EXCLUDING SLC</u>	
	<u>CHANGE</u>	<u>% CHANGE</u>	<u>CHANGE</u>	<u>% CHANGE</u>
1/1/91	-\$34,800,674	-2.20%	-\$30,508,155	-2.84%
7/1/91	-\$50,174,794	-3.06%	-\$47,119,800	-4.23%
5/25/92	\$7,264,799	.46%	\$ 7,264,799	.68%
7/1/92	-\$47,317,047	-2.76%	-\$40,110,008	-3.40%
CUMULATIVE		-7.39%		-9.50%

SOURCE: Mid-Course filing Transmittal 2200, D&J Section 3, 5/22/92 and 1992 Annual Filing Compliance Transmittal 2007, TRP. Base period proposed revenue less base period current revenue.

**Disclosure of SFAS-106
Information in External
Financial Reports**

1993

Form 10-K

Securities and Exchange Commission

Washington, D.C. 20549

(Mark One)

 X

**Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934 (Fee Required)**

For fiscal year ended December 31, 1993

or

**Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934 (Fee Required)**

For the transition period from _____ to _____

Commission File Number: 1-2346

SOUTHWESTERN BELL TELEPHONE COMPANY

Incorporated under the laws of the State of Missouri
I.R.S. Employer Identification Number 43-0529710

One Bell Center, St. Louis, Missouri 63101-3099
Telephone Number 314-235-9800

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF SOUTHWESTERN BELL CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Dollars in Millions

In 1986, the OCC made an inquiry into the effects of the Tax Reform Act of 1986 on the Telephone Company. As a result, in October 1989, the OCC concluded that the Telephone Company had a revenue surplus of \$27.5, and required the Telephone Company to invest this surplus, together with interest, to upgrade its network in Oklahoma rather than refund it to customers. In addition, prospective annual rate reductions totaling \$7.8 were ordered, effective October 1989.

In October 1989, the OCC order was appealed to the Oklahoma Supreme Court by various parties, including the Telephone Company. In December 1991, the Court upheld the portion of the OCC's decision that required the Telephone Company to invest the revenue surplus in network upgrades. The Court also determined that the OCC's finding of a depreciation reserve deficiency was not supported by substantial evidence and that the OCC's treatment of employee severance payments and cash working capital analysis was inappropriate. The OCC has not reconsidered the remand issues. A prehearing conference has been scheduled for April 1994. Although the final outcome of the OCC's reconsideration is uncertain at this time, management does not expect the decision to have a material future impact on financial results.

Texas The Telephone Company has completed the third year of its four-year incentive regulation agreement (the Agreement), which was approved by the TPUC in November 1990. Under the terms of the Agreement the Telephone Company has agreed, over a four-year period ending November 29, 1994, to cap certain local rates, provide annual rate reductions and other benefits to customers in Texas, and upgrade the network at a cost of approximately \$329. Rate reductions and customer benefits for 1991 were approximately \$246. Additional rate reductions of \$34 and \$21 were implemented in 1992 and 1993, respectively, and additional rate reductions of approximately \$146 will be implemented in 1994.

The Agreement also provides an earnings-sharing mechanism designed to encourage efficiency and innovation by the Telephone Company. Revenue sharing amounts for 1991 and 1992 were refunded to customers in 1993, with no material impact on financial results. Management expects that sharing for 1993, if any, will be minimal.

In 1991, the Agreement was appealed through the courts, and, in February 1993, the Texas Court of Appeals (Appeals Court) upheld the Agreement, but found that the TPUC incorrectly applied laws on the treatment of federal income tax benefits related to disallowed expenses and directed the matter back to the TPUC for resolution. In August 1993, the Telephone Company and opposing intervenors filed appeals in the Texas Supreme Court, and the matter is pending.

In October 1992, the Office of Public Utility Counsel (OPUC) filed a petition for inquiry into the rates of the Telephone Company, alleging that the Telephone Company had realized excess annual earnings of approximately \$234, which the sharing mechanism failed to capture. The Telephone Company filed a motion to dismiss in November 1992. In July 1993, TPUC granted the Telephone Company's motion to dismiss.

Postretirement Benefits Other Than Pensions The adoption of Statement No. 106 for ratemaking purposes has been addressed by regulatory authorities in most of the Telephone

Dollars in Millions

Company's state jurisdictions. See Note 2 to the financial statements for additional information on Statement No. 106. Texas and Arkansas, through commission order, and Kansas, through stipulation and commission order, have agreed to accrual accounting for postretirement benefit expenses, with some funding requirements. In Missouri, the MPSC has ordered continued pay-as-you-go treatment for postretirement benefit expenses. The Telephone Company intends to appeal this order. In Oklahoma, the OCC has not ruled on the issue, although OCC staff has recommended accrual accounting for postretirement benefit expenses, with some funding requirements.

An FCC order issued in December 1991 required all local exchange carriers to use the amortization method for recognition of the transition benefit obligation. In June 1992, the Telephone Company asked the FCC for the ability to increase its price caps to take into account the incremental interstate costs resulting from the accrual accounting required by Statement No. 106 (referred to as exogenous treatment). In January 1993, the FCC issued an order denying exogenous treatment for these incremental costs, but did not preclude the seeking of exogenous treatment of the transition benefit obligation in a separate filing in 1993. In February 1993, the Telephone Company joined with other local exchange carriers in an appeal of the January 1993 FCC order. In April 1993, the Telephone Company filed tariffs with the FCC requesting exogenous treatment of the transition benefit obligation. In June 1993, the FCC allowed the proposed rates to go into effect on July 1, 1993, subject to further investigation which could result in future refunds for all or part of the amount attributable to the transition benefit obligation. Potential refunds are currently being accrued by the Telephone Company; however, any future refunds are not expected to have a material impact on financial results.

Competition

Information relating to actual and potential competition impacting the Telephone Company's local exchange, vertical services, access and intraLATA toll revenues is included under the heading "Competition" in Item 1 on page 8 of this report.

Other Business Matters

Operational Restructuring During the third quarter of 1993, the Telephone Company announced a restructuring of its operations. The restructuring realigns the Telephone Company into two operating divisions, Customer Services, comprised of nine geographic market areas, and Network Services, which focuses on technology planning and deployment. As part of the restructuring, approximately 800 management positions were eliminated during 1993. Costs for severance, relocation and benefits associated with the positions currently eliminated were accrued during 1993, reducing net income by approximately \$35. Over the next 18 to 24 months, approximately 700 additional management positions will be eliminated.

Pending Litigation The Telephone Company is presently engaged in litigation with four Texas cities arising from the Telephone Company's alleged breach of certain ordinances relating to the Telephone Company's use of, and work activities in, streets and other public ways. The cases are entitled City of Mesquite v. Southwestern Bell Telephone Company, et al., and City of Harlingen and City of Brownsville v. Southwestern Bell Telephone Company,

Dollars in Millions

program resulted in a charge to 1991 net income of ~~approximately \$28 for the Telephone Company.~~

Postretirement Benefits The Telephone Company provides certain medical, dental and life insurance benefits to substantially all retired employees. Effective January 1, 1993, the Telephone Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106), which requires accrual of actuarially determined postretirement benefit costs as active employees earn these benefits. Prior to the adoption of Statement No. 106, the Telephone Company expensed retiree medical benefits when claims were incurred.

In implementing Statement No. 106, the Telephone Company immediately recognized an accumulated obligation for postretirement benefits (transition obligation) in the amount of \$2,756.9 and a related deferred income tax benefit of \$976.2. The resulting 1993 charge to net income of \$1,780.7 is included in the cumulative effect of changes in accounting principles in the Statement of Income.

In accordance with Statement No. 71, a regulatory asset associated with the transition obligation was not recorded by the Telephone Company.

In connection with the 1992 collective bargaining agreements negotiated between subsidiaries of the Corporation and the CWA, the Corporation established collectively bargained Voluntary Employee Beneficiary Association (CBVEBA) trusts to fund postretirement benefits. In March 1993, the Telephone Company contributed \$132.3 into the CBVEBA trusts to be ultimately used for the payment of postretirement benefits. The Telephone Company also funds postretirement life insurance benefits at an actuarially determined rate. Assets consist principally of stocks and U.S. government and corporate bonds.

Statement No. 106 requires certain disclosures to be made of components of net periodic postretirement benefit cost and a reconciliation of the funded status of the plans to amounts reported in the balance sheets. Since the funded status of assets and obligations relates to the plans as a whole, this information is not presented for the Telephone Company. The Telephone Company recognized postretirement benefit cost for 1993 of \$238.8. Under the claims incurred method, expense would have been approximately \$126.6. In 1992 and 1991, the cost of providing these postretirement benefits was \$102.6 and \$95.1, respectively. At December 31, 1993, the amount included in postemployment benefit obligation for postretirement benefits was \$2,722.6.

Certain actuarial assumptions were used by the Corporation to calculate postretirement costs under Statement No. 106. The accumulated postretirement benefit obligation (APBO) was determined using an assumed discount rate of 7.25 percent, a rate of future compensation increases of 4.6 percent, and an expected long-term rate of return on assets of 8.0 percent. The assumed medical cost trend rate in 1994 is approximately 10.5 percent, decreasing gradually to 5.5 percent in 2004, prior to

Dollars in Millions

adjustment of cost-sharing provisions of the plan for active and certain recently retired employees. The assumed dental cost rate in 1994 is 7.0 percent reducing to 5.0 percent in 2002. The discount rate used in determining the postretirement benefit cost is 7.5 percent. Raising the annual medical and dental cost trend rates by one percentage point increases the net periodic postretirement benefit cost for the year ended December 31, 1993 by approximately 7.5 percent.

Postemployment Benefits Effective January 1, 1993, the Telephone Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (Statement No. 112). Statement No. 112 requires accrual of disability pay, workers' compensation and medical benefits at the occurrence of an event that renders an employee inactive or, if the benefits ratably vest, over the vesting period. These expenses were previously recognized as the claims were incurred. A charge to net income of \$60.1, after a deferred tax benefit of \$32.9, is included in the cumulative effect of changes in accounting principles in the 1993 Statement of Income. Management does not anticipate that Statement No. 112 will materially affect ongoing postemployment benefit expense.

3. **Income Taxes**

The Telephone Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109) effective January 1, 1993. In adopting Statement No. 109, the Telephone Company adjusted its net deferred income tax liability for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, computed based on provisions of the enacted tax law on a separate company basis. Financial statements prior to January 1, 1993, have not been restated to apply the provisions of Statement No. 109. The cumulative effect of adopting Statement No. 109 as of January 1, 1993 was to decrease net income for 1993 by \$8.6. The adoption of Statement No. 109 had no material effect on pre-tax income.

As a result of implementing Statement No. 109, the Telephone Company recorded a \$431.4 net reduction in its deferred tax liability. The reduction in the deferred tax liability was caused primarily by deferred tax benefits provided for excess deferred taxes (arising from reduced tax rates, which are returned to customers through rates), and unamortized investment tax credits, partially offset by deferred taxes provided for temporary differences previously flowed through the ratepayers. This reduction was substantially offset by the establishment of a net regulatory liability in accordance with Statement No. 71, with minimal effect on net income. The net regulatory liability recognizes the differences between the recording of income taxes for financial reporting purposes and recovery of those taxes through telephone service rates. Amounts comprising the net liability will be amortized over the regulatory lives of the associated assets. Future regulatory proceedings may affect the period in which these amounts are recognized in net income.

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)



Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the period ended September 30, 1993

or



Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-2346

SOUTHWESTERN BELL TELEPHONE COMPANY

Incorporated under the laws of the State of Missouri
I.R.S. Employer Identification Number 43-0529710

One Bell Center, St. Louis, Missouri 63101-3099
Telephone Number: (314) 235-9800

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF SOUTHWESTERN BELL CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION H(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

SOUTHWESTERN BELL TELEPHONE COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. **PREPARATION OF INTERIM FINANCIAL STATEMENTS** - Southwestern Bell Telephone Company (Telephone Company) is a wholly-owned subsidiary of Southwestern Bell Corporation (Corporation). The condensed financial statements have been prepared by the Telephone Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting only of normal recurring accruals and adjustments necessary for adoption of new accounting standards) necessary to present fairly the results for the interim periods shown. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. Certain reclassifications have been made to the 1992 condensed financial statements to conform with the 1993 presentation. The results for the interim periods are not necessarily indicative of results for the full year. The financial statements contained herein should be read in conjunction with the financial statements and notes thereto included in the Telephone Company's 1992 Annual Report on Form 10-K.

2. **EMPLOYEE BENEFITS** - Effective January 1, 1993, the Telephone Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106), and Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (Statement No. 112), which require accrual of certain actuarially determined benefits as the benefits are earned or at the occurrence of an event that renders an employee inactive. Previously, these benefits were expensed as claims were incurred. The Telephone Company recognized the effect of the accumulated benefit obligation as a one-time charge to first quarter net income of \$1,840.8 million, after a deferred tax benefit of \$1,009.1 million. A regulatory asset associated with the accumulated benefits was not recorded by the Telephone Company as the timing and extent of recovery within the ratemaking process is uncertain. For the nine months ended September 30, 1993, postretirement benefits recorded under Statement No. 106 were \$179.1 million, or approximately twice the expense under the previous claims incurred method. The adoption of Statement No. 112 did not materially affect ongoing postemployment benefit expense.

3. **~~INCOME TAXES~~** - The Telephone Company adopted Statement of Financial Accounting Standards No. ~~109~~, "Accounting for Income Taxes" (Statement No. 109), effective January 1, 1993, which requires the use of the liability method to calculate deferred income taxes. The Telephone Company recorded a ~~\$431.4~~ million net reduction in its deferred tax liability, which was substantially offset by the establishment of a net regulatory liability. The cumulative effect of adopting Statement No. 109 was to decrease 1993 net income by \$8.6 million.

Sept. 1993 10-Q

SOUTHWESTERN BELL TELEPHONE COMPANY

Item 2. Management's Discussion and Analysis of Results of Operations.

RESULTS OF OPERATIONS (continued)

The Telephone Company's total operating expenses in the third quarter and first nine months of 1993 were \$1.6 billion and \$4.6 billion, respectively.

The changes in total operating expenses in the third quarter and first nine months of 1993 from the comparable periods in 1992 consisted of the following increases (decreases) by expense component (dollars in millions):

	<u>Third Quarter</u>		<u>Nine-Month Period</u>	
Cost of services and products	\$ (2.1)	(0.3)%	\$ 25.1	1.4 %
Selling, general and administrative	101.8	22.3	109.1	7.8
Depreciation and amortization	20.7	5.2	45.2	3.7
	<u>\$ 120.4</u>	<u>8.0 %</u>	<u>\$ 179.4</u>	<u>4.0 %</u>

Costs of services and products increased for the first nine months of 1993 due to a one-time charge for flood damage in portions of the Midwestern service territory, demand-related increases in material and access expenses and annual compensation increases, partially offset by lower expenses for switching system software license fees. For the third quarter, the decrease in expenses for switching system software license fees exceeded the increases described above.

Selling, general and administrative expenses increased in the third quarter and first nine months of 1993 primarily due to the increase in postretirement benefits expense required by the adoption of Statement of Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106) as discussed in Note 2 to the financial statements. Additionally, as further discussed in "Other Business Matters" on page 12, both the third quarter and nine-month period reflect the one-time charge for a restructuring of operations at the Telephone Company. Comparisons are also impacted by the recording of one-time charges for an offer of pension enhancements and related benefits to designated nonmanagement employees in the first quarter of 1992 and for estimated expenses associated with relocating the Corporation's headquarters in third quarter of 1992.

Depreciation and amortization increased in the third quarter and first nine months of 1993 due primarily to a change in plant level and composition. For the nine-month period, this increase was partially offset by a decrease in reserve deficiency amortization.

Interest expense decreased \$5.9 million or 5.8 percent and \$12.4 million or 4.0 percent in the third quarter and first nine months of 1993, respectively. The decrease was due primarily to lower interest rates on refinanced debt and short-term commercial paper. For the nine-month period, the decrease was partially offset by interest expense associated with the settlement of federal income tax audit issues in the second quarter of 1993.

SOUTHWESTERN BELL TELEPHONE COMPANY

Item 2. Management's Discussion and Analysis of Results of Operations.

RESULTS OF OPERATIONS (continued)

Other income increased \$2.7 million in the third quarter and decreased \$47.7 million for the first nine months of 1993. The decrease for the first nine months of 1993 was due primarily to the absence of interest income associated with the settlement of federal income tax audit issues in the first quarter of 1992 and to increases in legislative advocacy expenses in Texas. Additionally, lower interest rates reduced interest income and the amount of interest during construction capitalized in property, plant and equipment.

Federal income tax expense decreased \$10.2 million or 12.2 percent in the third quarter and increased \$7.2 million or 2.8 percent for the first nine months of 1993 due primarily to changes in income before income taxes and to the effects of the new tax law (as described in Note 3 to the financial statements).

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Developments:

Postretirement Benefits Other Than Pensions

The Kansas Corporation Commission (KCC) released an order on August 23, 1993 which recognizes Statement No. 106 costs for regulatory purposes. The order, effective retroactively to January 1, 1993, allows recovery of the transition obligation over twenty years and provides that fifty percent of Statement No. 106 costs in excess of pay-as-you-go costs will be deferred until the conclusion of the current rate plan in February 1995, at which time the deferred costs will be recovered over the remaining transition obligation amortization period. The order requires funding of all deferred costs by March 31, 1994; subsequent annual funding will equal annual expense.

Competition

On September 2, 1993, the Federal Communications Commission (FCC) released an order requiring certain local exchange carriers (LEC), including the Telephone Company, to provide expanded interconnection for switched access transport services. The order requires that independent parties be allowed to physically collocate their equipment within the LEC's central office, and to interconnect their own transmission facilities to a LEC's network at that point. This will facilitate other parties' ability to compete with the Telephone Company for the transport of typical telecommunications traffic between carriers' switching offices and between large users' locations. Under the order, LECs will be allowed additional flexibility in pricing competitive services. Tariffs are required to be filed on November 18, 1993, to be effective February 15, 1994. Management does not expect potential revenue reductions to have a material impact on the Telephone Company's financial results in the near term, but is unable to predict the effect of the order over longer periods.

FORM 10 -Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

☒

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the period ended June 30, 1993

or

☐

Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 1-2346

SOUTHWESTERN BELL TELEPHONE COMPANY

Incorporated under the laws of the State of Missouri
I.R.S. Employer Identification Number 43-0529710

1010 Pine Street, St. Louis, Missouri 63101-2070
Telephone Number: (314) 235-9800

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF SOUTHWESTERN BELL CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION H(2).

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐